

SPECIAL ACCOUNTING SERVICE MEETING

June 24, 2010

MEETING MINUTES

AGENDA	DISCUSSION/TOPIC	ACTION/STATUS
Attendance	<p>Chris Budasi (OFB)                      Selina Onedera-Salas (OFB)                      Edison Manaloto (OFB)                      Paul Terlaje (DRT)                      Matthew Quinata (BBMR)                      Euglenn Diaz (BBMR)                      Elaine Ayuyu (DOA)                      Gary Hiles (DOL)                      Debi Phillips (GVB)                      Albert Perez (BSP)                      *Senator Telo Taitague (GUEST)                      *Ed Lee (GUEST/Sen. Taitague Staff)</p>	
Call to Order	<p>The meeting was called to order at approximately 10:10 am.</p>	
Approval of Minutes from Previous Meeting	<p>Paul Terlaje made two corrections to the previous meeting's minutes from May 06, 2010.</p> <ol style="list-style-type: none"> <li>1. <i>Page 1: MWP Agenda should reflect that the \$30.3 million is the amount requested to be reimbursed for those credits.</i></li> <li>2. <i>Page 4: Income Tax Collection ... EIC is the only other credit that is <b>not</b> being reimbursed. A current report to show reimbursement on the ACTC was requested.</i></li> </ol> <p>Matthew Quinata made the motion to approve the minutes—as amended. The motion was carried by the group.</p>	<p>Paul to provide this report to the group at a later time.</p>

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<p>Old Business</p> <p>8 + 4 Revenue Projection (OFB)</p>	<p>(Please see attached GUAM GENERAL FUND COLLECTION... graph as distributed by Chris Budasi.) Chris reported to the group that the graph does not include the provision for income tax refunds or what has been paid out in tax refunds from the General Fund collections. The graph includes only the gross collections reported from the AS400 postings as of June 23, 2010. Based on the revenue postings to date, and the way that the projections are rolling out for the final four months it shows that \$596 million has been posted as opposed to the previous year at \$586 million. About \$70 million has been paid out from the General Fund collections for tax refunds. The net as of today (June 24<sup>th</sup>) would be \$526 million assuming no other refunds will be paid out. This data also does not include possible Section 30 revenue that could be realized as a result of the findings from Paul on the Thrift Savings Plan.</p> <p>Matthew reported to the group that he has attempted contact with the Department of Interior but has not yet received a response. He will report to the group later as soon as more information becomes available. Chris reported that Senator pangelinan has sent correspondence to Tony Babauta and Congresswoman Bordallo requesting for the full amount and to bypass the MOU. The OFB has continued to follow-up with the Congresswoman's office who has replied that they're still reviewing the matter.</p> <p>Chris provided a second graph (TOTAL GENERAL FUND TAX COLLECTIONS...) which shows the main categories of the General Fund by year. The one to focus on is FY09 vs. FY08: 8 months actual + 4 months projected (8 + 4). GRT is flat for FY08-09. Withholding tax is increasing possibly due to the</p>	

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	<p>revenue forecast reflecting the over-reimbursement for the Making Work Pay Credit. Gary Hiles reported to the group that the wage growth is about 4% which is lower than the year over year increase in withholding. Gary also advised that the withholding tables may have changed due to all tax credits as well (including the MWP credit).</p> <p>Chris reported that Guam is being reimbursed at \$2.7 million per month. According to Paul, while the withholding rates have been reduced, the impact on Guam was estimated to be at \$30.3 million which was requested to be reimbursed. The withholding rate is also applicable to other credits. Gary advised that the over-reimbursement may have pumped up the revenue base for the projections.</p> <p>Chris reported that the Corporate Income Tax looked better in June from what was trending through the year. But even though revenues are down from 2009, there may be recovery from earlier in the year when revenues were dismal. Around \$90 million on corporate income tax is projected to be collected, and individual income tax is also seeing an increase that should approach about \$76 million. Section 30 is representative of what was requested at the beginning of the fiscal year at \$38.8 million. Other sources are flat while interest and penalties is trending down. The reasons for this are not very clear but may be related to bond proceeds the garnishment of tax refunds and/or COLA payments.</p> <p>The information presented reflects 8 months of actuals with 4 months of forecasts including 23 days in June 2010 revenue collections (see GENERAL FUND REVENUE COLLECTION VARIANCE...). The sheet shows the actuals as posted to the Financial Management System. The 2<sup>nd</sup> column reflects the revenue budget as</p>	

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<p>Additional Section 30 Thrift Savings Plan Collection</p> <p>2008, 2009 Section 30 Reconciliation Dates</p> <p>2% General Fund Reserve Pay</p>	<p>prepared by BBMR per month. The 3<sup>rd</sup> column shows the variance between what was prepared and what the actuals are. The top of the sheet shows the first two quarters (6 months) of the year. The peach-shaded section reflects the 23 days of June which is not complete. The Summary of Gross Collections is listed to the right with the Net Provision Budget. The section on the bottom should compare to the monthly report released by BBMR as far as regular collections less the June numbers or should compare closely to the May numbers.</p> <p>Albert suggested for the OFB to produce a report that shows the 7 + 5 and 6 + 6 (months) to see if the later actual numbers match up with what was projected. Comparison can be used to refine mid-year projection methods.</p> <p>Matthew relayed to the group that he has already attempted contact with the DOI and will send another request for further information.</p> <p>Paul reported that he has not yet heard from his counterpart and is still awaiting the actual 2009 &amp; 2010 ledgers. Matt will continue to follow-up with the DOI who has previously advised him that a 2009 ledger is available but was never transmitted to Matt. Albert Perez suggested that the Census payout may also have had an impact on the reconciliation or the delay in the response. The question was posed to the group as to whether or not Census pay could have something to do with the increase in withholding as reported for March.</p> <p>Chris asked the group if this item should be removed from the revenue report, but Euglenn Diaz advised that the reserve is based on the adopted revenues and not the actuals. The 2% reserve, therefore, will not be recognized until actual revenues hit</p>	<p>Chris will produce and provide the report at the next meeting.</p>

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<p>Cigarette Tax Collection Update</p> <p>Individual Income Tax Data Request</p>	<p>the adopted.</p> <p>Glenn reported that at the time that the law was still in bill form, and if smokers' habits have not changed since there is a potential of \$22.2 million in collections. The data for how it's trending since the law was passed was requested. Elaine Ayuyu reported that so far, there is an increase of about \$5 million since May 2010 versus May 2009. Glenn explained that the 200% increase has been applied to the top or the revenue projections but that the actual revenue is not being affected by the law yet. He went on to explain that if the increase is applied, the expected increase should be around \$27.2 million more.</p> <p>Year over year comparison for the month of May was too large of an increase relative to the tax increase. Glenn and Elaine confirmed that May 2009 numbers did not include funds from the Safe streets fund that were later moved into the Healthy futures fund as a result of previous legislation. Glenn agreed to combine the funds from last year so an apples to apples comparison can be made about the impact of the tax increase.</p> <p>Paul explained that the tax is applied when the retailer sells the products to consumers who pay the tax upon purchase. An update for May and June with the cigarette tax after the increase has gone into effect will be reported next month.</p> <p>Chris referenced letters sent from the Senator to the DRT regarding the request for baseline data in order to target the individual income tax line but certain aggregated data to include average withholding, credits, income, etc.</p>	<p>Glenn to provide a report at the next meeting.</p> <p>Paul will follow-up and report to the OFB.</p>

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<p>Historical Bank Fee Data</p> <p>H2 Boarding and Meals Revenue of Employer</p>	<p>Almost \$3 million has been paid out in bank fees from the trustee fees (from bonds and other accounts), while percentages are paid for credit card fees. The banks collect these fees from what is received when payments are made to the Government of Guam thus causing a shortfall in collections. The goal is to collect historical data so that the new Budget Act will include funding to pay for these bank fees. Elaine Ayuuyu presented a breakdown of these fees (see BANK FEES SUMMARY REPORT). According to Elaine the bonds have separate fees for reporting and yearly fees. The bonds are all negotiated in the RFPs, but the credit card transactions are handled differently. When the credit card payments were first initiated, the charge is not on a specific bank but is for the financial institutions.</p> <p>The SAS position is that credit card payments may have paid by the consumer or be eliminated since these bank fees are non-appropriated expenditures that are automatically taken out of revenue collections by the bank upon settlement of the transaction. Reducing revenue collections as a result of having to pay these fees will affect the fully fund the operations outlined in the annual budget act.</p> <p>According to Paul, the Technical Research Branch gave a hypothetical situation for which an employer may pay an employee \$1000 a month taking \$300 off the top for meals and lodging provided to the employee leaving a difference of \$700 of take-home pay to that employee (payable tax). This amount deducted for the meals and lodging depends on the employers respectively and is usually part of the contract from the employer.</p> <p>The OFB maintains that the \$300 deducted from an employee's paycheck for meals and lodging is revenue to the employer and should be reported as such. This money,</p>	

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<p>BBMR Presentation of FY 2011 Revenues</p> <p>Labor Trends</p>	<p>therefore, should be taxed as revenue. This also impacts other businesses that do not realize or generate revenue from these employees who could be purchasing their meals elsewhere in the community. Gary provides that the law requires companies to pay a certain wage rate, and if the amount deducted is considered a business expense not paid to the employee then that amount can not pay the wage rate as required by law. If the amount is subtracted from the wages that are supposed to be paid, the withholding tax should be paid off the wages unless meals and lodging are provided as fringe benefits. This issue may be a tax law issue rather than a labor issue but can be viewed as otherwise if it conflicts with the wage requirements.</p> <p>Glenn distributed and discussed the FY 2011 General Fund Projection (see attachments). Based on the FY 2011 Executive Request submitted in January 2010, the total revenue is estimated at \$600 million before the 2% reserve (see item I.). There are two factors calculated into the general fund projection: baseline projection and PEVs (prevailing economic variables). Based on projections, the Trend Regression Analysis, Historical Data compares FY 08 actuals, 09 actuals, and 2010 tracking. When the revenue projections were submitted it included the tracking as of December 2009.</p> <p>Chris requested that more details be provided by BBMR to include the data if the provision for tax refunds is taken out with the gross revenue collections at \$715,387,201 based on the trend from (FY) 08-10 according to the graph that was passed out. Chris also requested that the information to be updated include the baseline being used for FY10.</p> <p>Gary presented that employment is up a little bit—especially in June. We’ve also</p>	<p>Paul will report his findings at the next meeting.</p> <p>Glenn will produce the report with the information requested and provide at the next meeting.</p>

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<p>Tourism Trend</p>	<p>recovered slightly from the tourism slump although we haven't broken new ground in terms of arrivals. The wages have increased by 4.9% compared to a year ago. The payroll should be up in the range of 5% due to three causes:</p> <ol style="list-style-type: none"> <li>1. The last increment for minimum wage has already been implemented;</li> <li>2. The prior increase in H2 prevailing wage rates which is only effective on the renewal or the new ones didn't affect our levels so the impact is gradual as H2 workers are replaced causing a moderate increase; or</li> <li>3. The H2 numbers are normal only increasing slightly. The number is still under 2000.</li> </ol> <p>There hasn't been a massive construction buildup yet and one won't be seen for another couple of months because of the time lapse between the time that the application for H2 workers is submitted and the time that the contracts are awarded. We won't see anything for the 4<sup>th</sup> quarter, and the pay scale will be similar to where we're at now.</p> <p>Debi Phillips reported to the group on behalf of GVB. The visitor arrival trend seems to be slightly above what was projected and reported as 1,127,631 by Gerry Perez due to an increase in charter and extra flights. The Korean market is the strongest market right now which increased by 77% or 16.7 year-over-year in seats. The percentages in reports for June 2009 just came in under 31. The full year seat capacity was higher than from Japan. From October to May it was up to 10.9% over last year. The particular reason for the jumps in visitor arrivals has yet to be determined. Information was received that shows that package tours to Guam were slashed with the elimination or decrease of the surcharge, but there is no information on the affect on package prices. Other reasons include competing destinations, the unstable exchange rates (in China), and leniency from the airlines just to fill seats.</p>	

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<p>BBMR Presentation of Special Funds Revenues</p>	<p>The strongest target markets are families, sports events, and other groups. Despite marketing efforts, nothing is outstanding, and the trend is steady. Hotel occupancy taxes are also seeing a loss after incidentals, rooms, and fees are deducted. It has also been found that there are more people occupying the rooms. This issue is under review and will be addressed. Local spend has also declined drastically (from about \$1000 to about \$500 per person) as compared to previous years.</p> <p>Glenn handed out the FY 2011 SPECIAL FUND REVENUE PROJECTION (see attachment) and noted two changes to include the Healthy Futures Fund which will increase drastically due to the increase in the cigarette tax and the DPW Building and Inspection Fund that has been reinstated due to PL 30-113.</p> <p>Chris added that with respect to the Solid Waste Operations Fund (SWOF) the quarterly reports issued by the receiver consistently shows projections to be around \$16-18 million upward, starting as early as this year. A letter was sent to the receiver to confirm these figures. Because there is no interface between the accounting system for GBB and DOA tracking this information is difficult. The Committee on Appropriations and the chairman are debating on either leaning on the receiver's projections after he responds with the confirmation letter or requesting his attendance at the Committee of the Whole to answer any questions on the floor.</p> <p>Chris requested that BBMR provide information on the impact of PL 30-113 to the Manpower Development Fund (MDF). Chris also inquired as to what types of collection outcomes we can expect to receive as a result of the Governor's new bill for the CLTC, but no one had any information available to respond with.</p>	<p>Glenn will produce the report with the information requested and provide at the next meeting.</p> <p>Glenn will report at the next meeting.</p>

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<p>FY 2011 Projection Meeting Dates</p> <p>GDP Report</p> <p>Adjournment</p>	<p>The SAS consensus on revenue projections meeting will be held at the Public Hearing Room between July 20<sup>th</sup> and July 30<sup>th</sup> pending replies from the SAS members as to what date is most convenient for attendance purposes. Each member was asked to contact Chris (later) to better decide on which date to schedule. The tentative date discussed is Friday, July 23<sup>rd</sup>.</p> <p>See chart on ECONOMIC GROWTH in attachments. Chris explained that this is a tool that can be used to move forward to account for activity in the community that will help our economic growth. He gave thanked Albert Perez for his leadership in the production of this report and acknowledged the DRT for contributing the back-end data as well. Albert reported that the methodology that supports the estimates will be published in September for all the territories and will be forward to the others in the SAS upon available. If members are interested in the information presented, please provide feedback to the group at a later time.</p> <p>The meeting was adjourned at 11:45 am.</p>	<p>Each member is to contact Chris with preference.</p>